



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 1, 2008

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Statement Of Investment Policy And Delegation Of Investment Authority For Fiscal Year 2009

RECOMMENDATION: That Council:

- A. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Adopting the Investment Policy for the City and Rescinding Resolution No. 07-065; and
- B. Authorize the City Administrator/City Clerk/City Treasurer to invest or reinvest funds, or to sell or exchange securities so purchased for the City of Santa Barbara and the Redevelopment Agency of the City of Santa Barbara for Fiscal Year 2009.

DISCUSSION:

The Government Code of the State of California no longer requires local agencies to submit to the State an annual statement of investment policy. The State Code specifies permitted investments for local governments, but the City's Statement of Investment Policy defines the suitable and authorized investments for the City. In some cases, the City's policy is more restrictive than State Code; additionally, the policy serves as a guide for setting and achieving program objectives and defines guidelines for the management of the portfolio. Therefore, staff strongly recommends that Finance Committee review and approve, and Council adopt, the investment policy on an annual basis.

Except for County governments, the State Code does not contain any provisions specifying what must be included in the investment policy of a local agency. The City has developed a comprehensive investment policy that includes all critical components recommended by various professional agencies and organizations, and the policy has been awarded several certifications. Therefore, staff recommends that the policy be updated annually to incorporate any statutory and/or internal policy changes, thereby maintaining this standard of excellence. If a local agency's policy is submitted to the legislative body, it must be an agenda item at a public meeting and should be approved by a vote of the legislative body no later than the end of the first quarter of the year to which it applies.

There is one State statutory change made effective January 1, 2008 which adds a new authorized investment to Section 53601 of the State Government Code. Section 53601 of the State Government Code governing investments was modified to include a new subdivision, 53601(d) which authorizes local agencies to invest in registered treasury notes and bonds issued by any of the other 49 states in addition to California. Currently, the City's Investment Policy (*Page 5, Section VII, Subsection A4*) states that the City is authorized to invest in registered treasury notes and bonds of the State of California, which is in accordance with Section 53601(c) of the State Code. Staff recommends that investments authorized under the new subdivision of Section 53601 not be incorporated into the City's Investment Policy at this time. Because the notes and bonds issued by state governments are almost exclusively issued as tax-exempt debt, the yields are lower than can be obtained by purchasing the U.S. Treasury and federal agency securities that make up the bulk of the City's investment portfolio. Staff does not believe that the purchase of notes and bonds issued by states other than California is an investment option that is necessary.

There is sufficiently broad language in the policy to allow for any changes that may occur during the year to be accommodated on an administrative basis rather than a formal revision to the policy. For example, Section VII in the policy states: "If the Government Code is amended to allow additional investments or is changed regarding the limits on certain categories of investments, staff is authorized to conform to the changes in the revised Government Code, provided the changes are not specifically prohibited by City policy. Staff shall present those changes to the City Council in the annual review of the policy and make recommendations to the City Council to incorporate the new legislation within the policy." And, Section IX, Subsection D2, refers to the City's conformance with any Government Accounting Standards Board (GASB) pronouncements rather than citing a specific ruling currently in effect, which may be updated in the future. If there are any changes throughout the year to the investment program, staff will, of course, bring these items to the attention of Finance Committee.

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office